

RatingsDirect®

Summary:

Lowell, Massachusetts; Non-School State Programs

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Summary:

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Credit Profile

Lowell GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Lowell, Mass.' general obligation (GO) debt to 'AA-' from 'A+', based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

In addition, we affirmed our 'AA' long-term rating on issues enhanced by the commonwealth's Chapter 44A Qualified Bond Act (Massachusetts General Law), which Standard & Poor's rates 'AA/Stable'.

A pledge of the city's full faith and credit secures the bonds.

The rating reflects our assessment of the following factors for the city:

- We consider Lowell's economy adequate, with its projected per capita effective buying income at 79% of the U.S. and per capita market value of \$57,132. The city also participates in the broad and diverse economy of the Boston metropolitan area, and the county unemployment rate for calendar year 2012 was 5.3%.
- The city's budgetary flexibility is adequate. Audited fiscal 2013 reserves were \$21.8 million, or 7% of expenditures. Management is anticipating 2014 reserves to be slightly lower but remaining in line with years past.
- Lowell's budgetary performance has been strong, in our view, with a surplus in the general fund in fiscal 2013 of \$3.7 million equal to 1.2% of expenditures. Across all funds, the city also realized a surplus, after adjusting for capital spent from bond proceeds. For fiscal 2014, the city anticipates balanced operating results.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash at 22% of total governmental fund expenditures and roughly 5x debt service. Moreover, based on past debt issuance, we believe the city has strong access to capital markets to provide for liquidity needs, if necessary.
- We view the city's management conditions as strong with good financial practices.
- In our opinion, Lowell's debt and contingent liabilities profile is adequate. The city maintains roughly \$247 million of total direct debt. Of that amount, we calculate roughly \$120 million is tax-secured enterprise debt with partial self-support. Overall, Lowell's total governmental fund debt service is 8.3% of total governmental fund expenditures, and net direct debt is 57% of total governmental fund revenue. Further bolstering our view of the city's debt profile is that overall net debt is a low 2.1%, and that principal amortization is aggressive at 60% over 10 years.
- An additional long-term credit consideration are the city's long-term pension and other postemployment benefit (OPEB) liabilities, which will continue to rise over the medium term. Currently pension and OPEB costs amount to 9% of expenditures. For pensions, the city pension system is 57% funded and its unfunded actuarial accrued liability is \$179 million. The city pays 100% of its required contribution. For OPEBs, the city's liability is \$520 million. Lowell funds this liability on a pay-as-you-go basis.

- We consider the Institutional Framework score for Massachusetts cities as strong.

Outlook

The stable outlook reflects our view of Lowell's focus on maintaining adequate operating flexibility. We believe an improved economic outlook and predictable operating profile will result in balanced operations. Strong management conditions are also a stabilizing rating factor.

While we believe pension and OPEB costs will remain a budgetary pressure, we do not expect it to weaken budgetary performance over the medium term. For these reasons, we do not expect to change the rating within the two-year outlook horizon.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 17, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of March 11, 2014)		
Lowell GO (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Lowell Non Sch St Prgm		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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